



## California TAP\$ Campaign

(Troops Against Predatory Scams)

Take **AIM** . . . Be Armed With Information

# TOP FINANCIAL SCAMS

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### MILITARY AFFINITY FRAUD

Many service personnel and veterans are lured into lending and investment scams that are marketed by companies with military-sounding names that hire former officers as salespeople. They know how to talk to servicemembers to obtain their trust. Servicemembers should beware of high cost insurance plans with low coverage and high rate consumer loans. Servicemembers are especially vulnerable to cash advance loans which offer quick and easy cash, but annual interest rates can approach triple-digits if the principal is not paid off promptly. Contractual fund mutual plans have been marketed to military even though this type of fund was taken off the civilian market years ago because of high upfront sales charges and they are uncompetitive when compared with other investment products.



### ONLINE ESCROW FRAUD

Purchases through online auction sites such as eBay have become a popular arena for fraud. Online escrow services are often used for expensive online purchases such as computers, electronics, jewelry, and cars. Legitimate online escrow companies act as a neutral third party who holds payment for merchandise until the buyer receives the merchandise. However, a fraudulent escrow company will lure unsuspecting buyers or sellers to transact business through their Web site and then keep the funds and/or goods.



### BAIT AND SWITCH SCHEMES

Investors should be very wary about advertising in which a particular investment promises spectacular profits, but investors have to be lured into the office to get it. This is the bait. Once in the office to purchase the investment, the sales agent discourages the investor from investing in the advertised product and persuades the investor to purchase a different investment.



### VARIABLE ANNUITY SALES

As sales of variable annuities have risen, so have complaints from investors—most notably, the omission of disclosure about costly surrender charges and steep sales commissions. These surrender charges and high fees combine with other factors to make variable annuities inappropriate for many investors, particularly for purchases in retirement accounts.



### PONZI / PYRAMID SCHEMES

Typically an unknown company is offering eye-popping returns from some plausible sounding, but vaguely described business activity. Such schemes are often spread by word of mouth through groups such as churches, ethnic groups, or professional affiliations, frequently in an atmosphere of secrecy. The formula is simple: promise high returns to new investors and use their money to pay previous investors. But all Ponzi and pyramid schemes eventually collapse when new investors stop participating—leaving most of the participants with a financial loss.



## CD + BONUSES

Companies promise investors tantalizing high rates of return on certificates of deposits by including a bonus payment to attract investors, but then try to switch the person into buying a different investment. In an enforcement action brought by the California Department of Corporations, a firm offered one-year certificates of deposits (CDs) that were purportedly FDIC-insured with yields substantially higher than those actually available from any actual FDIC-insured institution. The firm paid the bonus out of its own pocket; investors were tricked into sales of high-priced annuities.



## VIATICAL INVESTMENT SCAMS

Viatical contracts are interests in the death benefits of life insurance policies. Investors get a share of the death benefit when the insured later dies, after a fee is paid to the viatical investment broker. These investments are extremely risky for numerous reasons including difficulty predicting life expectancy, the promoter not paying policy premiums as promised, or the promoter simply stealing the investor's money. In 2004, the California Department of Corporations obtained a judgment of \$20 million against a fraudulent viatical investment firm in San Diego.



## LIVING TRUST MILLS and PRETEXT SOLICITATIONS

Sales agents invite veterans to so-called 'free seminars' purporting to provide valuable information on financial topics such as estate planning and living trusts, Medi-Cal eligibility, retirement planning, and tax relief. The sales agent claims to be a trust expert, and refers to him/herself as a 'trust advisor,' or 'senior estate planner.' These seminars are usually geared to gain access to their personal financial information, which could result in veterans purchasing an unsuitable or unlawful financial or investment product.



## AFFINITY GROUP FRAUD

Members of closely-knit religious, cultural, and professional groups are targeted by con artists who share or claim to share their characteristics or interest. The con artists often enlist respected community or religious leaders from within the group to spread the word about the scheme, by convincing those people that a fraudulent investment is legitimate and worthwhile. These scams exploit the trust and friendship that exist in groups of people who have something in common. In an Asian community in California, a finance lender unlawfully charged in excess of 200 percent interest on certain loans.



## CHARITY SCAMS

Con artists often try to make money out of tragedy. Con artists may attempt to collect money under the guise of being involved in disaster relief efforts or by offering phony bonds to finance the reconstruction of devastated areas. Donors need to check out the charity carefully, demand details, beware of excessive pressure, and make sure any donations are tax deductible. E-mail scammers may also send out pleas for help from phony survivors, invading recipients' computers and stealing financial and other information from those who click on links in the documents.

**TAKE 'AIM' BEFORE YOU INVEST**

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